



October 24, 2002

Marlene H. Dortch, Secretary  
Federal Communications Commission  
Office of the Secretary  
445 12th Street, SW  
Washington, DC 20554

RE: **Notice of Ex Parte Communication**

Review of Section 251 Unbundling Obligations of Incumbent Local  
Exchange Carriers, CC Docket No. 01-338

Implementation of the Local Competition Provisions of the  
Telecommunications Act of 1996, CC Docket No. 96-98

Deployment of Wireline Services Offering Advanced  
Telecommunications Capability, CC Docket No. 98-147

Dear Ms. Dortch:

On October 24, 2002, Steve Gray, Bill Courter, and I met (on behalf of McLeodUSA Telecommunications Services, Inc.) ("McLeodUSA") with Bill Maher and Jeff Carlisle (of the Wireline Competition Bureau) and Michelle Carey and Tom Navin (of the Competition Policy Division, Wireline Competition Bureau). The purpose of the meeting was to provide information about the operations of McLeodUSA, and to discuss issues related to the availability of unbundled network elements. Attached is a presentation used in the meeting.

Pursuant to the requirements of Section 1.1206 of the Commission's rules, we are filing an electronic copy of this notice.

Very truly yours,

David R. Conn  
Deputy General Counsel



## ***Company Overview***

*October 2002*



## *Introduction to McLeodUSA*

- *Competitive telecom company, focused on 25-state Midwest and Southwest*
- *Founded in 1992 and began providing service in Iowa and Illinois in 1994*
- *Rapidly grew by expanding footprint within territory and acquisitions*
- *Chris Davis joined in mid-August 2001*
- *Refocused corporate strategy in September 2001*
- *Completed comprehensive Recapitalization on April 16, 2002... strong balance sheet today*
  - *Eliminated \$3 billion of high-yield debt and \$285 million of bank debt*
  - *Less than six months from conception to completion*
- *Forstmann Little has invested \$1.2 billion and now holds 58% ownership in McLeodUSA*

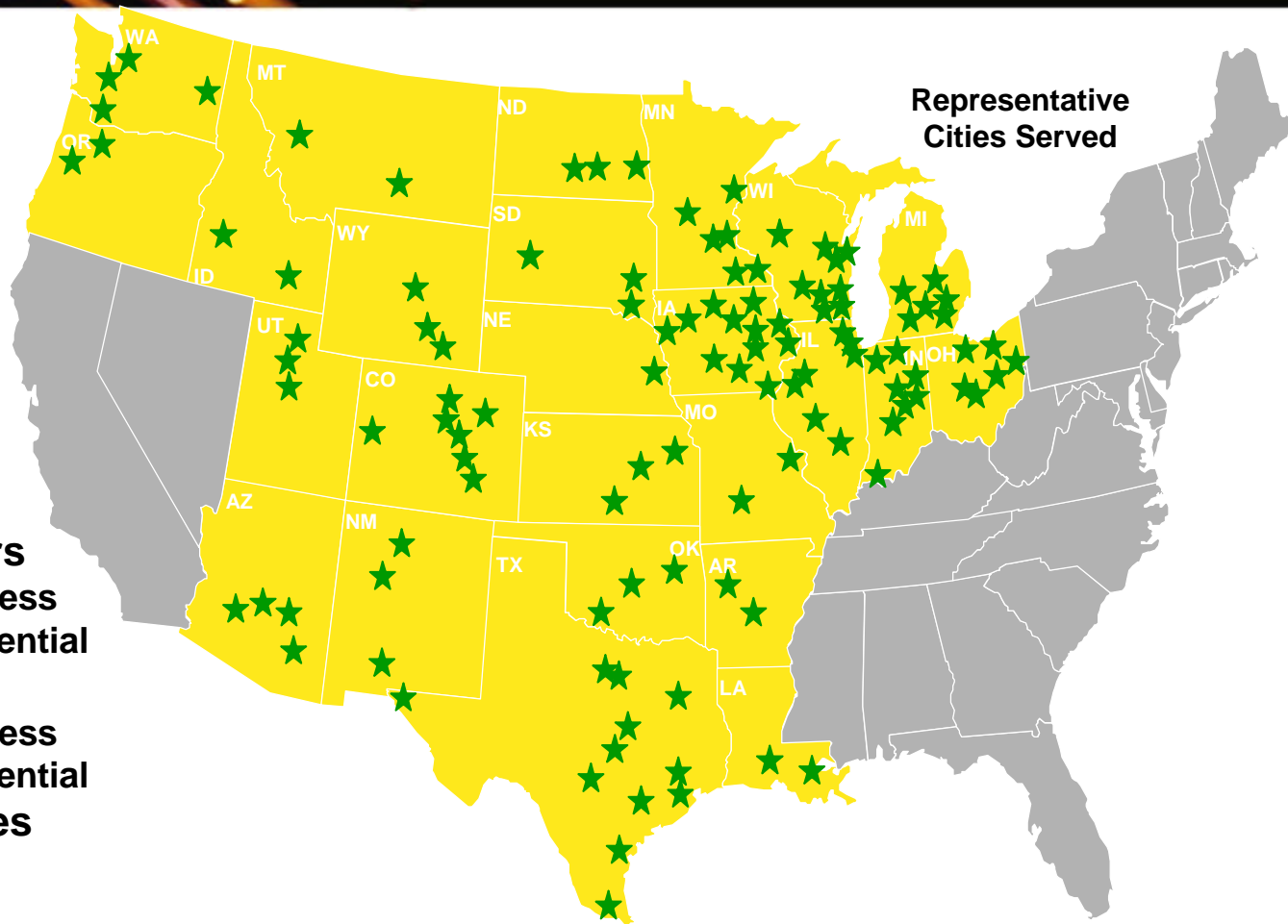


## Core Strengths

- *Nation's largest, independent competitive Telecommunications service provider*
  - *Over 1 million business and residential lines in service*
  - *Over \$1 billion of Telco revenue... positive Telco EBITDA in 2Q'02*
- *Proven ability to add customers*
  - *75% annual growth in access lines since 1996*
- *Well-known, well-respected brand and market presence*
- *Substantial progress in developing network... invested nearly \$2.8 billion*
- *Tough, fair competitor focused on high, quality service*
- *Significant opportunity to grow revenue, reduce costs and achieve profitability... selectively investing for the future*

## *Local, Long Distance, Broadband/Internet*

**25 States**  
**462K Customers**  
• 47% Business  
• 53% Residential  
**1M+ Lines**  
• 75% Business  
• 25% Residential  
**4,500 Employees**  
**\$1B+ Revenue**  
**\$2.5B Assets**





## *Focused Business Strategy*

- *Previous strategy involved too many “moving pieces”*
  - *Rapidly growing competitive Telco*
  - *Construction of national data network*
  - *Directory publishing business operated to enhance McLeodUSA brand*
  - *Integration of many, major acquisitions*
  - *Over 10 additional smaller operating units*
- *Operational restructuring implemented to reduce distractions, improve execution*
  - *Pure-play competitive Telco strategy focused on our strengths*
    - *25-state footprint*
    - *Small to medium-sized business and select residential customers*
    - *Facilities-based network... selectively using UNE-P*
  - *Eliminate or divest*
    - *National network plan*
    - *Non-core assets*
    - *Unprofitable and subscale markets*



## Strengthened Board

- *Board members added since August 2001*
  - *Tom Bell*                      *CEO of Cousins Properties, former CEO of Young and Rubicam*
  - *Dale Frey*                      *Former CEO of GE Investment Corp. and Treasurer of GE*
  - *Peter Ueberroth*              *Owner of the Pebble Beach Company*
  - *Ed Breen*                      *CEO of Tyco*
  - *Chris Davis*                      *McLeodUSA Chairman and CEO, former EVP/CFO at Gulfstream*
  - *Ken Burckhardt*              *McLeodUSA EVP and CFO, former SVP Finance at Gulfstream*
  - *Juan Villalonga*              *Former CEO of Telefonica and Terra Lycos*
  - *Farid Suleman*              *CEO of Citadel Communications*
  - *Jeong Kim*                      *Former President of Lucent Optical Networking Group*
  - *Dan Snyder*                      *Chairman & CEO of The Washington Redskins*
- **Board now includes nine current or former CEOs with relevant experience to McLeod's 25-state strategy**





## *Upgraded Management Team*

- *Have recruited seven new Executive or Group Vice Presidents that have significant experience leading large, successful companies*
  - *Five were part of the Gulfstream team with Chris Davis and Ted Forstmann*

	<b><u>Title</u></b>	<b><u>Relevant Experience</u></b>
<i>Ken Burckhardt</i>	<i>EVP, CFO</i>	<i>SVP of Finance, Gulfstream</i>
<i>Shawn Vick</i>	<i>EVP, Sales</i>	<i>SVP Sales, Bombardier, VP Sales, Gulfstream</i>
<i>Andreas Papanicolaou</i>	<i>EVP, Network Services</i>	<i>GM Optical Network Management, Lucent</i>
<i>Tom Vater</i>	<i>GVP, Finance</i>	<i>VP of Operations Finance, Gulfstream</i>
<i>Cheri Roach</i>	<i>GVP, CIO</i>	<i>SVP of IT, Gulfstream</i>
<i>Greg Crosby</i>	<i>GVP, Marketing</i>	<i>VP of Broadband Marketing, Sprint</i>
<i>Roy McGraw</i>	<i>GVP, Materials Mgmt</i>	<i>Director of Procurement, Gulfstream</i>

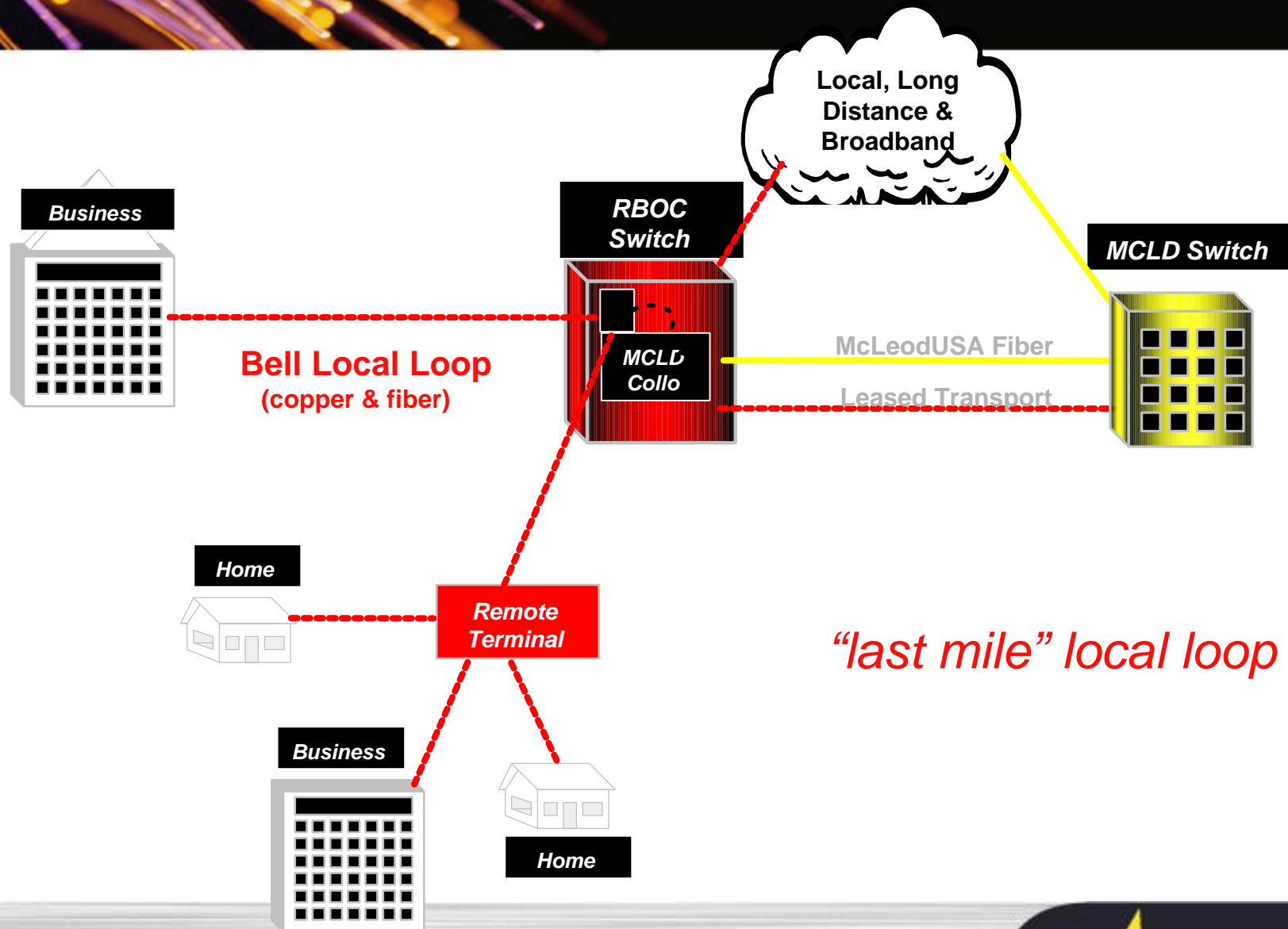




## *Improved Governance & Accountability*

- *Executive Committee established to provide strategic direction*
  - *Ted Forstmann (former Gulfstream Chairman) - Chairman of Executive Committee*
  - *Includes Chris Davis and Steve Gray*
  - *Includes two experienced outside directors who have been involved in previous successful turnarounds – Ed Breen and Dale Frey*
  - *Employed structure successfully at Gulfstream*
- *Reconstituted Audit Committee – Dale Frey, Chairman*
- *Terminated Arthur Andersen relationship...engaged Deloitte & Touche as independent auditors for 2002*
- *Hired KPMG to provide internal audit services (3Q'02)*

# Bell Monopoly





## Critical Issues

Issue	Position	Rationale
<ul style="list-style-type: none"><li>• <i>UNE-L for Voice and Broadband services (ubiquitous interconnection)</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Bells have monopoly control of local network</i></li><li>• <i>Complete overbuilds...unrealistic</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Customers denied competitive choice</i></li></ul>
<ul style="list-style-type: none"><li>• <i>UNE-P for Residential</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Ensure continued availability</i></li></ul>	<ul style="list-style-type: none"><li>• <i>No UNE-P...no/limited residential competition</i></li></ul>
<ul style="list-style-type: none"><li>• <i>UNE-P for Business</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Ensure continued availability</i></li></ul>	<ul style="list-style-type: none"><li>• <i>UNE-L replicability and scalability</i></li></ul>
<ul style="list-style-type: none"><li>• <i>TELRIC Pricing</i></li></ul>	<ul style="list-style-type: none"><li>• <i>TELRIC = Cost + Profit for Bells</i></li><li>• <i>U.S. Supreme Court affirmed</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Monopoly-set “market-based” pricing destroys competition</i></li></ul>
<ul style="list-style-type: none"><li>• <i>Performance Metrics and Penalties</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Must be simple, measurable and meaningful</i></li><li>• <i>Financial guarantees for inadequate service</i></li></ul>	<ul style="list-style-type: none"><li>• <i>Compensate competitors for lack of compliance</i></li></ul>



## *McLeodUSA's Public Policy Position*

- *Do not change '96 Act (rules of the game)*
- *FCC must not restrict competitors' utilization and access to the unbundled loop*
- *All elements of UNE-P are essential... key for residential and rural competition*
- *Pricing should be forward-looking and incremental (i.e. TELRIC)... not monopoly-set "market-based" pricing*
- *Simplify and implement meaningful and measurable performance metrics and penalties*
- *Ensure effective long-term competition.. for local, long distance and data*

